

**REPORT OF  
FINANCIAL EXAMINATION**

**FARMERS MUTUAL FIRE INSURANCE  
COMPANY OF RANDOLPH COUNTY**

**AS OF  
DECEMBER 31, 2005**

**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI**

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August 9, 2006  
Moberly, Missouri

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

**FARMERS MUTUAL FIRE INSURANCE COMPANY OF RANDOLPH COUNTY**

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 615 South Morley, Moberly, Missouri, telephone number (660) 263-5621. This examination began on July 5, 2006, and was concluded on July 6, 2006, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2000, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

**Procedures**

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

### **Comments-Previous Examination Report**

The comments, recommendations, and notes of the previous examination report dated December 31, 2000, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Corporate Records**

**Comment:** The Board should formally adopt a policy manual as instructed in the previous examination.

**Company Response:** The Company drafted and adopted a written policy and procedure manual.

**Current Findings:** The Company has a policy and procedure manual in place which adequately addresses the operations of the Company.

## **HISTORY**

### **General**

The Company was organized in February 1897 and incorporated on May 5, 1917, as Farmers Mutual Fire Insurance Company of Randolph County.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

### **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the fourth Saturday in February, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members constitute a quorum at membership meetings. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every other month, and directors are compensated \$75 for each meeting attended.

Members serving on the Board of Directors as of December 31, 2005, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Merl Wernhoff 1820 County Road 2655 Clark, Missouri	Self-Employed/Farmer	2004-2007
Charles Schumann 3377 East 24 Highway Moberly, Missouri	Retired	2003-2006
Eddie McKeown 1865 County Road 2630 Moberly, Missouri	USDA Employee	2005-2008
Robert Jaecques 2164 County Road 1730 Cairo, Missouri	Mechanic	2005-2008
Earl Martin 4615 South Highway 63 Moberly, Missouri	Retired	2004-2007
Michael Schumann 200 South Elgin Street Jacksonville, Missouri	Factory Clerk	2003-2006
David Mauzey 3253 Highway NN Moberly, Missouri	Manager- Automotive Parts Dealership	2005-2008
Arthur Ray Heath 1641 County Road 2782 Clark, Missouri	Retired	2003-2006
Ronnie Schmidt 4676 Highway M Moberly, Missouri	Farmer	2004-2007

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2005, were as follows:

Merl Wernhoff	President
Earl Martin	Vice-President
Donna K. Glascock	Secretary/Treasurer

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments were made to the Articles of Incorporation or Bylaws during the examination period.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$25,000 and \$50,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$2,000,000 and a \$2,500 deductible in aggregate for each claim.

The Company utilizes only independent agents who are required to obtain their own errors and omissions insurance.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

### **EMPLOYEE BENEFITS**

The Company has two full-time employees and one part-time employee. The full-time employees receive \$2,000 each per year in lieu of health insurance benefits and two weeks of paid vacation each year. The Company provides a whole life insurance policy for the manager, which pays an annuity to the manager upon her retirement. The Company appears to have made adequate provisions in the financial statements for these employee benefits.

### **INSURANCE PRODUCTS AND RELATED PRACTICES**

#### **Territory and Plan of Operation**

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by eight licensed independent agents, who receive a 15% commission.

#### **Policy Forms and Underwriting Practices**

The Company uses AAIS and Grinnell policy forms. Policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by independent inspector/adjusters.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2005	\$566,741	\$30,574	\$719,165	\$148,611	\$13,731	\$41,230	\$52,642
2004	591,151	105,971	716,552	770,643	13,195	(26,907)	(7,466)
2003	524,828	34,640	688,234	325,458	16,038	(8,840)	11,170
2002	510,183	32,778	532,275	170,883	17,716	12,644	32,351
2001	479,501	7,630	452,703	427,298	23,413	(3,529)	20,629

At year-end 2005, 1,227 policies were in force.

## REINSURANCE

### General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct	\$452,703	\$532,275	\$688,234	\$716,552	\$719,165
Assumed	0	0	0	0	0
Ceded	<u>(135,025)</u>	<u>(220,704)</u>	<u>(264,297)</u>	<u>(322,371)</u>	<u>(310,308)</u>
Net	<u>\$317,678</u>	<u>\$311,571</u>	<u>\$423,937</u>	<u>\$394,181</u>	<u>\$408,857</u>

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence of loss excess with aggregate excess plan reinsurance agreement.

The first occurrence of loss section of the agreement covers fire and wind risks. The Company retains



\$25,000 per occurrence and the reinsurer's limit is \$25,000 per occurrence. First occurrence of loss rates are calculated based on net recoveries paid by the reinsurer, with minimum rate of .3126 and a maximum rate of 1.8942 per \$1,000 of adjusted gross risk in force. The individual excess of loss section of the agreement covers wind and fire risks. The Company retains \$50,000 for each loss occurrence and the reinsurer's limits are \$500,000 for dwellings, commercial and public property and livestock, poultry and horse operations and \$750,000 for farm outbuildings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis. The annual premium rate paid to the reinsurer for individual occurrence of loss coverage in 2005 was \$.4341 for fire and \$.1149 for wind per \$1,000 of adjusted gross fire risks in force.

The aggregate excess section of the agreement covers fire and wind risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2005 was \$189,279 and the annual premium paid was \$.8463 per \$1,000 of adjusted gross fire risks in force.

The agreement provides for liability risk coverage. The Company cedes 100% of the risk and premium to the reinsurer and receives a 20% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

## **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on an accrual basis. The Company prepares the annual statement and tax filings.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

**ANALYSIS OF ASSETS**  
**December 31, 2005**

Bonds	\$ 296,251
Real Estate	48,707
Cash on Deposit	190,852
Computer Equipment	13,249
Federal Income Tax Recoverable	2,322
Asset Write-Ins	15,360
	-----
Total Assets	<u><u>\$ 566,740</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2005**

Ceded Reinsurance Payable	\$ 21,723
Liability Write-Ins	8,851
	-----
Total Liabilities	<u>\$ 30,574</u>
	-----
Guaranty Fund (Note 1)	\$ 150,000
Other Surplus	386,166
	-----
Total Surplus	<u>\$ 536,166</u>
	-----
Total Liabilities and Surplus	<u><u>\$ 566,740</u></u>

**STATEMENT OF INCOME**  
**December 31, 2005**

Net Premium	\$ 408,857
Other Insurance Income	46,015
Net Losses Incurred	(154,890)
Other Underwriting Expenses	(258,752)
	-----
Net Underwriting Income (Loss)	\$ 41,230
	-----
Investment Income	\$ 13,731
Other Income	76
	-----
Gross Income (Loss)	\$ 55,037
Federal Income Tax	(2,395)
	-----
Net Income (Loss)	\$ 52,642
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2005**

Policyholders' Surplus, December 31, 2004	\$ 485,180
Net Income (Loss)	52,642
Unapplied Premium Adjustment	(1,655)
	-----
Policyholders' Surplus, December 31, 2005	\$ 536,166
	=====

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 – Guaranty Fund and Other Surplus

The Company guaranty fund balance of \$272,811 exceeded the calculated amount per the requirements of Section 381.271 RSMo (Financial Reinsurance Requirements) by \$122,811. The minimum guaranty fund of \$150,000 is sufficient based on the Company's net wind and fire insurance in-force at December 31, 2005 and net liability premium in 2005. The examination change decreased the guaranty fund balance and increased the other surplus balance by \$122,811.

### EXAMINATION CHANGES

Total Policyholder's Surplus Per Company, December 31, 2005			\$ 536,166
	Increase in Surplus	Decrease in Surplus	
Guaranty Fund	\$ 0	\$ (122,811)	
Other Surplus	\$ 122,811	\$ 0	
	-----	-----	
Total Change	<u>\$ 122,811</u>	<u>\$ (122,811)</u>	<u>0</u>
Total Policyholder's Surplus Per Examination, December 31, 2005			<u>\$ 536,166</u>

### GENERAL COMMENTS AND RECOMMENDATIONS

There were no general comments or recommendations.

### SUBSEQUENT EVENTS

None.


## ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Fire Insurance Company of Randolph County during the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri    )  
                              ) ss  
County of Cole        )

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

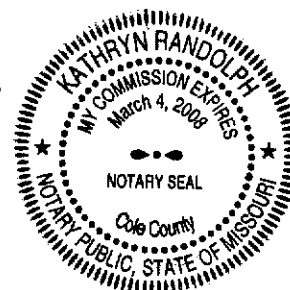
  
Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 9<sup>th</sup> day of August, 2006.

My commission expires:


March 4, 2008

  
Kathryn Randolph  
Notary Public



## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
Frederick G. Heese, CFE, CPA  
Audit Manager -- Kansas City  
Missouri Department of Insurance